

## Michaud-Backed Small Business Tax Cut on the Way to House Floor

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WASHINGTON, DC -Congressman Mike Michaud lauded last night's passage of H.R. 976, the Small Business Tax Relief Act of 2007, by the House Ways and Means Committee. Michaud, a cosponsor of the bipartisan bill, said House leaders have indicated that H.R. 976 could be on the House floor for a vote as early as Wednesday.

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"Small businesses are the backbone of our national and state economy," said Michaud. "I am pleased that the House Ways and Means Committee acted in a bipartisan manner to extend these tax cuts for small businesses in a way that does not increase the deficit."

H.R. 976 is a revenue-neutral package that would extend critical tax provisions for small business owners and pave the way for the House and Senate to agree on legislation to raise the Federal minimum wage from \$5.15 per hour to \$7.25 per hour.

"Passing this small business tax relief package would be a positive step forward for Maine firms. It shows that the Congress will take a strong role in addressing the concerns that restaurants and other small businesses have, and that we can do this in a fair way as we increase the minimum wage," said Michaud.

A summary provided by the House Ways and Means Committee of the Small Business Tax Relief Act can be found below.

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#### Extension of the Work Opportunity Tax Credit ("WOTC"):

H.R. 976 would (1) extend the WOTC for one year so that the WOTC is available for qualified workers who begin work for an employer after December 31, 2007 and before January 1, 2009, (2) expand the WOTC to disabled veterans and increase the available credit for wages paid to disabled veterans, and (3) increase the age limitation (from 25 to 40) for residents living in empowerment zones, enterprise communities and renewal communities.

#### WOTC Background: WOTC

currently provides employers with business tax credits for certain wages paid to individuals from one of nine targeted groups, including individuals meeting the definition of a qualified veteran and individuals ages 18 to 25 living in empowerment zones, enterprise communities and renewal communities and recipients of certain public assistance programs. The WOTC serves as an incentive to encourage employers to hire individuals from these targeted groups which typically experience barriers to work. Under current law, employees hired after December 31, 2007 would not qualify for the WOTC.

#### Extension and Increase of Small Business Expensing (Section 179):

H.R. 976 provides for a one-year extension of small business expensing with an increase from \$112,000 to \$125,000 (indexed for inflation) in the total amount of expensing allowed.

The bill also expands the number of small businesses that can qualify for the maximum benefit by increasing the phaseout threshold amount from \$450,000 to \$500,000. Those increases will apply to the 2007 taxable year and subsequent taxable years (indexed for inflation). This extension and increase will allow small businesses to more easily afford large capital expenses such as store updates, equipment upgrades and technology purchases.

#### Expense Background: Present

law limits small business expensing to \$112,000 (indexed for inflation) each year with a phase-out threshold at \$450,000 (indexed for inflation). After 2009, small business taxpayers will only be allowed to expense \$25,000 each year with a phase-out threshold at \$200,000 under current law.

## Enhancement of the Tip Credit for Certain Small Businesses:

H.R. 976 allows businesses to continue claiming the full tip credit despite any increase in the federal minimum wage. It achieves this by freezing the minimum wage level for purposes of calculating the credit.

### Tip Credit Background: Tips

received by restaurant employees are treated as wages for purposes of Social Security taxes. As such, employers must pay Social Security taxes on tips received by their employees. These employers receive a business tax credit for taxes paid on tip income in excess of the federal minimum wage rate. Therefore, without this provision, the credit received by restaurant employers will decrease when the federal minimum wage rate increases.

## Waiver of Individual and Corporate Alternative Minimum Tax (AMT) Limitations on WOTC and Tip Credits:

H.R. 976 would provide a permanent waiver of the individual and corporate AMT limitations that prevent many small businesses from claiming the WOTC and the credit for Social Security taxes paid with respect to cash tips.

### Background on AMT

Limitations: Current law limits small businesses' ability to claim the WOTC and tip credit by imposing a limitation that such credits cannot be used to offset taxes that would be imposed under the AMT.

## Family Business Tax Simplification:

H.R. 976 would allow an unincorporated business that is jointly owned by a married couple in a common law state to file as a sole proprietorship without penalty. It would also ensure that both spouses receive credit for paying Social Security and Medicare taxes. The National Taxpayer Advocate recently identified this issue as a problem for many small businesses and the House has previously passed a similar proposal addressing this issue.

Current Law: Under current law, if an unincorporated business that is jointly owned by a married

couple files as a sole proprietorship (as opposed to a partnership), only the filing spouse will receive credit for paying Social Security and Medicare taxes. Furthermore, unless the married couple is located in a community property state (i.e., Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas and Washington), both the married couple and the business will be subject to penalties for failing to file as a partnership.

#### Denial of Lowest Capital Gains Rate for Certain Dependents:

H.R. 976 would deny the lowest capital gains and dividend rate (currently 5%, next year 0%) to certain dependent children to prevent wealthy taxpayers from shifting income to their children to avoid taxation on capital gains and dividend income.

**Background: Capital**  
gains and dividend income earned by individuals in the 10% or 15% tax brackets are taxed at lower rates. This benefit presumably was enacted to provide low-income individuals with capital gain and dividend reductions. However, it is also available for dependent children of wealthier taxpayers. These taxpayers can avoid income taxes by placing assets in their child's name and taking advantage of the zero capital gains rate on capital gains and qualified dividend income.

#### Extension of Time for IRS to Provide Notice of Deficiency

H.R. 976 would provide the Internal Revenue Service (IRS) with additional time to provide taxpayers with notice that they failed to comply with their tax obligations before the IRS is required to suspend the imposition of interest and penalties on underpayments. Given the IRS' lack of resources, this change is necessary to provide the IRS with more time to effectively administer our tax system.

**Background: Under**  
current law, the IRS is required to suspend the imposition of interest and penalties with respect to any failure to comply with tax obligations if the IRS does not provide a notice to the taxpayer specifically stating the taxpayer's liability and the basis for the liability before the close of the 18 months following the due date of the return.